SaskTel

Financial Statements of

SECURTEK MONITORING SOLUTIONS INC.

December 31, 2006

SecurTek Monitoring Solutions Inc. (SecurTek)
www.securtek.com
SecurTek, a wholly owned subsidiary of SaskTel, provides commercial and residential security monitoring services to customers in Saskatchewan, Alberta, Manitoba, British Columbia, and selectively in Ontario and Nova Scotia, from their state-of-the-art fully redundant monitoring centre in Yorkton, Saskatchewan. Operating a security monitoring centre leverages SaskTel's call centre, network management and process expertise to provide value added services. Through their dealer program, SecurTek partners with 134 independently owned firms including retail, wholesale, and servicing dealers who provide security sales and service expertise to their customers. Fourteen of SecurTek's dealers are Saskatchewan-based firms. SecurTek employs 101 people including 92 at their head office in Yorkton.

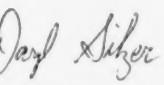
President's Message

SecurTek continues to be a Saskatchewan success story. Today, SecurTek is the largest monitoring company in Saskatchewan serving over 60,000 residential and commercial customers from our base in Yorkton, Saskatchewan. With revenues reaching nearly $16 million for 2006, representing an increase of $940 thousand over 2005, SecurTek's financial position is strong and improving.

Not only does SecurTek provide annual salaries and wages of $3.0 million into the local economy at our head office location, our positive role in the economy reaches beyond Yorkton. Through our established dealer program, we partner with 134 independently owned firms, including retail dealers, wholesale dealers, and servicing dealers. Fourteen of the dealers are Saskatchewan-based firms, and each of them prospers from the relationship, providing income and employment opportunities across the province.

SecurTek is well positioned to thrive in the monitoring industry's competitive market. Our ability to adapt to new technologies, the strength of our dealer network of independent local businesses, the skill and dedication of our employees, and our financial stability as a SaskTel subsidiary all ensure continued success for SecurTek.

I would like to thank our dedicated employees and management team, our authorized dealers, and especially our customers for their contributions in making 2006 a successful year.



Daryl Silzer,
President and CEO, SecurTek Monitoring Solutions

KPMG

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AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of SecurTek Monitoring Solutions Inc. as at December 31, 2006 and the consolidated statements of operations, deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 10, 2007

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

Consolidated Statement of Operations

For the year ended December 31, (Thousands of dollars)	2006	2005
Operating revenues	**$15,921**	$14,978
Operating expenses		
Operations	**9,841**	9,436
Depreciation and amortization	**5,186**	4,847
	15,027	14,283
Income from operations	**894**	695
Other income	**95**	-
Interest expense	**640**	495
Net income	**$349**	$200

See accompanying notes

Consolidated Statement of Deficit

For the year ended December 31, (Thousands of dollars)	2006	2005
Deficit, beginning of year	**$(3,551)**	$(3,751)
Net income	**349**	200
Deficit, end of year	**$(3,202)**	$(3,551)

See accompanying notes

Consolidated Statement of Financial Position

As at December 31, (Thousands of dollars)	2006	2005
Assets		
Current assets		
Cash	$ 925	$2,099
Accounts receivable	1,323	1,329
Current portion of financing leases receivable (Note 3)	552	576
Inventory	-	38
Prepaid expenses	136	78
	2,936	4,120
Property, plant and equipment (Note 4)	1,932	1,707
Customer accounts (Note 5)	26,401	27,558
Long term portion of financing leases receivable (Note 3)	393	244
Deferred development costs	-	26
	$31,662	$33,655
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable and accrued liabilities	$832	$725
Deferred revenue	1,120	1,219
	1,952	1,944
Long-term debt (Note 6)	14,773	17,123
	16,725	19,067
Shareholder's equity		
Share capital and contributed surplus (Note 7)	18,139	18,139
Deficit	(3,202)	(3,551)
	14,937	14,588
	$31,662	$33,655

See accompanying notes

On behalf of the Board

Robert Watson

Mike Anderson

Consolidated Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2006	2005
Operating activities		
Net income	$349	$200
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	5,186	4,847
Gain on disposal of assets	(95)	-
Interest accrued on long-term debt	-	118
Net change in non-cash working capital (Note 8)	(47)	(181)
Cash provided by operating activities	5,393	4,984
Investing activities		
Property, plant and equipment expenditures	(783)	(1,038)
Customer accounts	(3,444)	(2,406)
Proceeds on disposal of assets	135	
Cash used in investing activities	(4,092)	(3,444)
Financing activities		
Financing leases receivable	(765)	(310)
Payments received on financing leases receivable	640	871
Repayment of long-term debt (Note 6)	(2,350)	(2,500)
Cash used in financing activities	(2,475)	(1,939)
Decrease in cash	(1,174)	(399)
Cash, beginning of year	2,099	2,498
Cash, end of year	$925	$2,099
Interest Paid	$640	$499

See Accompanying Notes

Notes to Consolidated Financial Statements

Note 1 – The Corporation

SecurTek Monitoring Solutions Inc. (the Corporation) is incorporated under the laws of the Province of Saskatchewan and is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco) providing real time monitoring solutions in select markets in Canada.

The financial results of the Corporation are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 – Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Consolidation

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiary, SecurTek Partnership No. 8. All significant intercompany transactions and balances have been eliminated.

Property, plant and equipment

Property, plant and equipment is recorded at cost, including materials, services and direct labour. Depreciation and amortization is computed on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Plant and equipment	4 to 5 years
Customer premise equipment	10 years
Office furniture, equipment and leaseholds	3 to 5 years

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and purchased intangibles subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value.

Notes to Consolidated Financial Statements

Note 2 – Summary of significant accounting policies, continued

Customer accounts

Customer accounts acquired individually, with a group of other assets, or through the Corporation's authorized dealers are recorded at cost. Customer accounts are amortized over 10 years using the straight line method. The Corporation annually reviews the amortization method and useful lives of customer accounts.

Revenue recognition

Revenues from the monitoring of alarm systems are recognized when services are provided. Installation revenue and financing income related to equipment leased to customers under direct financing leases are recorded as unearned financing income and amortized over the leased term. Financing income is calculated based on rates of interest implicit in the lease terms.

Employee future benefits

The Corporation has defined contribution plans providing pension benefits for its employees. Defined contribution plan costs are recognized as employees render services during the year.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates include the recoverability of customer accounts and the underlying determinations of average customer account life. Significant changes in the assumptions could materially impact the results reported in future periods.

Note 3 – Financing leases receivable

Customer financing on direct financing leases is provided for up to a five year period after which time the ownership of the equipment transfers from the Corporation to the customer.

	2006	2005
		(Thousands of dollars)
Financing leases receivable	**$1,173**	$875
Less unearned revenue	**228**	55
	945	820
Less current portion of leases receivable	**552**	576
	$393	$244

Notes to Consolidated Financial Statements

Note 4 – Property, plant and equipment

	Cost	Accumulated depreciation and amortization	Net book value	
			2006	2005
			(Thousands of dollars)	
Plant and equipment	**$4,456**	**$3,497**	**$959**	$908
Customer premise equipment	**956**	**119**	**837**	667
Office furniture, equipment and leaseholds	**685**	**549**	**136**	132
	$6,097	**$4,165**	**$1,932**	$1,707

Depreciation and amortization for the year totalled $584,709 (2005 - $571,302).

Note 5 – Customer accounts

	Cost	Accumulated amortization	Net book value	
			2006	2005
			(Thousands of dollars)	
Customer accounts	**$47,526**	**$21,125**	**$26,401**	$27,558

Amortization during the year totalled $4,601,137 (2005 - $4,233,070).

Note 6 – Long-term debt

The balance represents amounts due to Holdco which are unsecured and bear interest at the Holdco's borrowing rate of 4.20% (2005 – 3.25%), with no fixed repayment terms.

Note 7 – Share capital and contributed surplus

	2006	2005
	(Thousands of dollars)	
Share capital		
Authorized - unlimited number of class A common shares		
Issued – 6,150,000 shares	**$6,150**	$6,150
Contributed surplus	**11,989**	11,989
	$18,139	$18,139

Notes to Consolidated Financial Statements

Note 8 – Net change in non-cash working capital

	2006	2005
	(Thousands of dollars)	
Accounts receivable	$6	$(15)
Inventory	28	(38)
Prepaid expenses	(58)	23
Accounts payable and accrued liabilities	76	(73)
Deferred revenue	(99)	(78)
	$(47)	$(181)

Note 9 – Commitments and contingencies

Commitments
The future minimum payments under the operating leases and contractual obligations for services in each of the next five years are as follows:

	(Thousands of dollars)
2007	$304
2008	98
2009	94
2010	81
2011	40

The above payments include $586,499 for services with related parties.

Contingencies
In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2006 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's financial position or results of operations.

Note 10 – Financial instruments

Fair value

The carrying amounts of cash, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments.

The carrying value of financing leases receivable and long term debt approximate their fair value. Fair value is determined as the amount that could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities.

Credit risk

The Corporation has a large and diverse customer base that minimizes the concentration of credit risk.

Notes to Consolidated Financial Statements

Note 11 – Employee benefit plans

The Corporation has two defined contribution pension plans. The total cost for the defined contribution plans is equal to the Corporation's required contributions. The Corporation's 2006 pension cost and employer contributions are $130,616 (2005 - $88,282).

Note 12 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and Holdco (collectively referred to as "related parties").

Routine operating transactions, other than those noted below, with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2006	2005
	(Thousands of dollars)	
Operating revenues	**$220**	$97
Operating expenses	**1,946**	1,698
Accounts payable and accrued liabilities	**10**	174
Accounts receivable	**682**	614

The Corporation participates in customer solutions which may involve delivery of the Corporation's services in conjunction with those of related parties. Participation in these customer solutions is done at no cost to the Corporation as agreed to by the related parties.

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes thereto.

Note 13 – Comparative figures

Certain of the 2005 figures have been reclassified to conform to the current year's presentation.